STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

July 5, 2001

Citizens Utility Board Request for an investigation into the current structure of the Nicor Customers Sect Pilot Program and the Proposed Changes filed August 10, 2000, Meet the Public Interest Standards and Other Requirements Set Forth in the Public Utilities Act. 220 ILCS 5/4-101; 220 ILCS 5/8-101; 220 ILCS 8-102	00-0620	
		(cons.)
Northern Illinois Gas Company d/b/a Nicor Gas Company Proposed changes to Riders 15 and 16 and related provisions. (Tariffs filed on August 11, 2000)	00-0621	

TO ALL PARTIES OF INTEREST:

The attached document is served in accordance with 83 Ill. Adm. Code 200.710. It has been filed and included in the record of the case but shall not itself form the basis for any finding of fact in this proceeding.

Sincerely,

Donna M. Caton

Donna M. Caton
Chief Clerk

sc
Administrative Law Judges Showtis & Zaban

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ILLINOIS COMMERCE COMMISSION
MEMORANDUM

TO: CHAIRMAN RICHARD MATHIAS
COMMISSIONER TERRY HARVILL
COMMISSIONER EDWARD HURLEY
COMMISSIONER MARY FRANCES SQUIRES

CC: COMMOSSIONER'S ASSISTANTS

FROM: COMMISSIONER RUTH K. KRETSCHMER

DATE: JUNE 28, 2001

SUBJECT: CITIZENS UTILITY BOARD /
NORTHERN ILLINOIS GAS COMPANY D/B/A/ NICOR GAS COMPANY,
DOCKET 00-0620/00-0621 (CONS.)

Monthly Account Charge

Nicor Gas Company ("Nicor") presents sound arguments throughout their brief on exceptions, pages 2 through 12, against eliminating Customer Select supplier charges. For your convenience, I am providing Nicor's arguments relating to the monthly Account Charge found on pages 9, 10 and 11.

"Finally, Mr. Mierzwa's $1.74 "cost saving" calculation is patently unreasonable on its face. As the HEPO (p. 45) notes, the maximum potential savings in gas inventory costs due to Customer Select, based on data from the Company's last rate case (which used a 1996 test year), was $0.26 per month from all residential customers. In other words, $0.26 – not anything even approaching $1.74 – is the level of cost reflected in the Company's base rates which could be avoided if the Company held <u>no</u> gas in storage for Customer Select customers. Nicor Gas Ex. E, pp.23-24 (Harms Rebuttal). In evaluating the facial reasonableness of Mr. Mierzwa's $1.74 "cost saving" calculation, the Commission should recognize that the Company's Gas Supply Cost ("GSC") for June, 1996 was 33.33 cents per therm, while its GSC for June, 2001 is 40 cents, representing a 20% increase in cost. Mr. Mierzwa's purported credit of $1.74, on the other hand, implies that gas costs have increased by almost 550% since the Company's 1996 general rate case – a price increase that is not only incorrect but absurd on its face.

A second common sense way to check the reasonableness of the $1.74 "cost saving" offset adopted by the HEPO is to look at total gas inventory savings if all 1.8 million Nicor Gas sales customers hypothetically chose to participate in Customer Select. Pursuant to the Company's 1996 rate case order, Nicor Gas collects through its sales distribution rates approximately $9 million in total annual carrying costs for gas storage inventory from all sales customers. CUB Cross Ex. 1 (CUB 4.1). In contrast, if Mr. Mierzwa's (and the HEPO's) carrying cost figure of $1.74 per customer per month were *applied to all 1.8 million sales customers, it would amount to $37.6 million ($1.74 x 1.8 million x 12) – more than 4 times the amount established in the rate case. Even allowing for a 20% increase in gas costs, the calculation adopted by the HEPO is clearly inflated by 380%.*

In sum, the HEPO's reliance on Mr. Mierzwa's calculation of hypothetical gas inventory carrying cost savings is misplaced because that calculation allocates purported cost savings on a basis directly contrary to the Commission's cost allocation determination in the Company's last general rate case, fails to segregate the appropriate storage inventory that the Company holds for sales customers, fails to consider the usage patterns of all customers eligible for Customer Select, fails to take into account the effect of diversity, and fails to recognize that the Company will, in fact, continue to incur gas storage inventory costs in serving Customer Select customers."

It is not appropriate to eliminate the monthly Account Charge based on purported carrying cost savings due to gas storage inventory reductions and to redirect those purported savings to suppliers, as the HEPO would do. We know the cost to Nicor is higher than zero.

- The calculation used by CGI witness Mierzwa and accepted in the HEPO assumes that Nicor will maintain no storage inventory for Customer Select customers – a fact that is totally incorrect. As local distribution companies have told us repeatedly, to meet demand requires average daily storage withdrawals during the winter months from October through March range from 40% to 55% of load, with an average winter peak day at 50%.
- Nicor proposes to permit all suppliers to carry over larger imbalances between deliveries as well as storage activity and use, which will require Nicor to increase the amount of gas it holds in storage for Customer Select.
- Customers changing suppliers, as often as once a month, also can impact Nicor's storage inventory positively or negatively.
- Mr. Mierzwa's presumed savings are based on the peak day usage of an average residential space-heating customer.
    - This methodology is directly contrary to Nicor's actual Commission-approved rate design, which has not been changed. In its order in Nicor's 1996 rate case, the Commission adopted a position using an average and peak allocation methodology that incorporates a sizeable volumetric allocation of demand costs. Calculations of costs avoided, or saved, as a result of expanding Customer Select, must be consistent with Nicor's Commission-approved rate design methodology.
    - Program eligibility is open to all gas customers, not just residential customers and not just space-heating customers. Because of the erroneous assumptions on customer participation, Mr. Mierzwa's calculations are fundamentally flawed.

- The \$1.74 "cost savings" per customer adopted by the HEPO is obviously unreasonable (see excerpt above) and should be given no weight.

Since the \$1.74 "cost savings" per customer, as adopted by the HEPO, is erroneous, it is prudent to reevaluate the elimination of three Customer Select supplier charges, specifically, the Group Additions Charge, the Group Charge and the Account Charge. Staff's initial evaluation and proposed changes to these charges are still relevant. These concerns are reflected in my proposed language.

- The Group Additions Charge can be eliminated based on competitive concerns.
- In staff's initial brief, staff recommended that the current Group Charge of \$200.00 should apply only to larger groups with 10,000 members or more. A separate charge of \$100.00 should be added for smaller groups with less than 10,000 members. I agree.
- Just as Nicor's monthly Account Charge has decreased twice since its initial approval, from \$3.00 in 1997 to \$1.00 now, I believe we should reduce the monthly Account Charge to \$0.61. This figure can be derived by subtracting the gas-cost-adjusted figure of \$0.31, in this docket, from staff's original recommendation of \$0.92 for the account charge.

I believe we should require Nicor Gas to report to the Commission in two years and present evidence on customer switching behavior, storage requirements and specific costs associated with Customer Select. I am providing language ordering Nicor to report to the Commission 24 months from the effective of the new revised tariff sheets for Customer Select.

<u>Conclusion</u>

My goal is to bring this proceeding to an equitable close without penalizing Nicor or subsidizing suppliers participating in Customer Select and, continue to provide a quality program for customers switching to Customer Select.

attributable to Customer Select exceed the additional cost associated with the development, implementation and operation of Customer Select. In reaching this conclusion, they compare the $1.74 per month gas inventory storage savings calculated by Mr. Mierczwa when an average residential customer switches to Customer Select to the $1.06 per month cost calculated by Mr. Harms.

Mr. Mierczwa explained his calculation of the $1.74 per month savings in the following manner. Under Customer Select, a supplier serving a residential heating customer is assigned storage capacity equal to 26 times the customer's maximum daily use. The maximum daily use of an average residential heating customer is 17 therms; thus the supplier would be assigned 442 therms of storage capacity. In addition, a supplier is assigned storage capacity for balancing purposes equal to 6 times the customer's maximum daily use, or 102 therms. Therefore, in total, a supplier serving a residential heating customer is assigned 544 therms (442 therms plus 102 therms) of storage capacity. Nicor Gas determines how storage is to be utilized by suppliers under Customer Select. It is reasonable to assume that Nicor Gas will direct suppliers to use storage in a fashion similar to that used by Nicor Gas to provide sales service. In the year 2000, on average, Nicor Gas maintained storage inventory at 60 percent of maximum capacity. Assuming Nicor Gas' current storage carrying charge factor is comparable to that in its last rate proceeding of 16 percent, at a 40 cents per therm cost of gas, Nicor Gas' storage inventory would decrease by $1.74 per month when an average residential customer switches to Customer Select. (GCI Ex. 3.0 at 7-8)

In response to Mr. Mierzwa's calculated savings of $1.74 per month, Nicor Gas states that the storage inventory cost included in its base rates is approximately $0.26 per month per residential customer. In calculating the savings of $0.26, Nicor Gas witness Harms indicated that in Nicor Gas' 1996 rate case, approximately $0.0027 per therm of throughput was included in base rates for storage inventory carrying costs. He also noted that for the 12 months ending October, 2000, the average residential customer's use was 1,134 therms. (Nicor Gas Ex. E at 23-25) As noted above in subsection 6, Nicor Gas also contends that there is no way to predict accurately the level of gas storage inventory reductions, if any, attributable to Customer Select.

The Commission notes that in Nicor Gas' brief on exceptions to the Hearing Examiners' proposed order, Nicor Gas argues that Mr. Mierzwa's calculation is fundamentally flawed because it is directly contrary to the rate design mandated by the Commission in the Company's 1996 rate case, is based on a 12-month average of Nicor Gas' total storage utilization rather than a 13-month weighted average of gas inventory for sales customers only, is calculated on the basis of gas usage of residential space heating customers rather than all eligible Customer Select customers, and does not take into account diversity, load factors and volumes of various classes of customers. In responding to these arguments, Staff, CUB/Cook County, and the People point out that these arguments were raised for the first time in Nicor Gas' brief on exceptions and are not based on record evidence. The Commission concludes that these arguments should be given no weight since they are not supported by evidence in the record.

The Commission has examined the calculations of gas storage inventory savings by Mr. Mierzwa and Mr. Harms and finds that Mr~~. Mierzwa's~~Harm's is more appropriate. ~~The Commission agrees with CUB/Cook County that Mr. Harms' calculation is flawed since it is based on outdated gas costs from its 1996 rate case. In contrast, Mr. Mierczwa's calculation is based on current dollars and is accepted. Having accepted Mr. Mierzwa's calculation, the Commission concludes that the monthly Group Charge, monthly Account Charge and the Group Additions Charge should be eliminated since the costs those charges are intended to recover are exceeded by Nicor Gas' savings in gas storage inventory carrying charges attributable to Customer Select.~~ However, the Commission should adopt and modify Mr. Harm's storage credit of $0.26 per account per month. Adjusting for current gas costs, $0.31 per account per month is the appropriate credit to be applied to the monthly Account Charge.

Further we accept Staff's proposal to change Nicor Gas' proposed $1.00 per account per month charge to $.92 per account per month. The Commission accepts Staff's argument that the $10.00 Group Additions Charge contained in Rider 16 could be a barrier and could limit customer switching. The cost of switching in the program should more properly be included in the administrative costs of the program as represented by the monthly Account Charge. The net monthly Account Charge is, therefore, $0.61 per account per month with the inclusion of the storage credit ($0.92 minus $0.32 = $0.61).

The Commission accepts Staff's position that the monthly Group Charge of $200.00 may be discriminatory. Therefore, the Commission accepts Staff's position that the monthly Group Charge be $200.00 for groups over 10,000 customers and $100.00 for groups under 10,000.

Turning to the $0.50 per bill charge assessed by Nicor Gas when it performs the billing for the supplier's charges to customers under Customer Select, the Commission notes that CUB/Cook County assert that this charge is not listed in Nicor Gas' Customer Select tariffs. Nicor Gas did not dispute this assertion, nor did it present any evidence as to the costs associated with this single billing. ~~Since Nicor Gas did not justify this charge, it is ordered to cease assessing this charge.~~In its brief on exceptions, Nicor Gas asserts that Commission approval of the $0.50 per bill charge is not required since the provision of such billing services is a non-utility activity that is properly reflected in an agreement between Nicor Gas and the suppliers who choose to use this service. Nicor Gas notes that billing services to third parties are routinely available from an array of non-utility suppliers. Nicor Gas also indicates that under Section 7-102(E) of the Public Utilities Act, it is not required to file with or seek Commission approval of contracts, transactions or activities involving an annual consideration of less than $5 million. (Nicor Gas Brief on Exceptions at 31-33) In response, the People contend that Nicor Gas is required to file a tariff for the $0.50 per bill charge and substantiate the charge. The People cite Section 9-102 of the Act, which provides:

> Every public utility shall file with the Commission and shall print and keep open to public inspection schedules showing all rates and other charges, and classifications, which are in force at any time for any product or commodity furnished by it, or for **any service in connection therewith**, or performed by any public utility controlled by or operated by it.
>
> (emphasis added by the People)

The People state that the billing service is a service in connection with the gas commodity. The People indicate that the billing charge is part of the Customer Select Program and that all other charges associated with the Program are provided pursuant to tariff. (People Reply to Briefs on Exceptions at 9-10) The Commission concludes that Section 9-102 of the Act requires that the $0.50 per bill charge be set forth in a tariff. Since Nicor Gas did not justify this charge, it is ordered to cease assessing this charge.

The remaining charge that is subject to dispute is the $2000 Supplier Application Charge. Nicor Gas indicates that costs totaling $2,095 are recovered through this charge. Staff accepted all of Nicor Gas's cost support for this charge, except for program training costs. Staff concludes that program training costs are $350, rather than the $1,060 indicated by Nicor Gas. The training costs have two components: the costs of a visit with the supplier and the cost of a training manual. While Nicor Gas indicates that the visit with a supplier involves 24 hours of its staff's time at a cost of $960, Staff concludes that the training during the supplier visit can be accomplished in eight hours at a cost of $320. Having reviewed the list of issues that are discussed during the visit and Nicor Gas' testimony that three different Nicor Gas employees are needed to train the suppliers' employees, the Commission concludes that Nicor Gas has justified its position that 24 hours of its employees' time are required to provide training during the visit. Accordingly, Staff's position is rejected. Staff also concludes that the cost of the training manual is $30, rather than the $100 indicated by Nicor Gas. Staff eliminates the costs of updates/revisions to the current manual on the grounds that such costs are non-recurring expenses that should not be recovered from every new supplier. As pointed out by Nicor Gas, however, the manual will need to be updated and revised to reflect the outcome of this proceeding. The Commission determines that Nicor Gas has justified the $100 cost of the training manual. Even if the $70 disallowance proposed by Staff were accepted, the total of the remaining costs recovered through the Supplier Application Charge would be $2,025. The Commission concludes that the $2,000 Supplier Application Charge is cost-justified and is approved.

Finally, we reject the position of CUB/Cook and People that all supplier charges should be eliminated as anticompetitive and unnecessary (i.e., that suppliers should be able to participate in Customer Select for free). It is well established in Illinois that cost-causers should pay for the costs they impose on utility systems. Open access and transportation programs create additional costs for utilities as systems necessary to allow customers to choose their own commodity providers are implemented. Moreover, we note that Nicor Gas had had similar administrative charges in effect for transportation customers for over 12 years. Transportation programs in Illinois, Including those in Nicor Gas' territory, have been very successful. We conclude that the company's' charges are not hindering competition and represent reasonable fees to implement a transportation program for small residential and commercial customers.

FINDINGS AND ORDERING PARAGRAPHS

(7) Nicor shall file a report to the Commission 24 months after its tariff takes effect. The report shall contain evidence on the number of customers participating in its Customer Select program, the number of gas suppliers participating in its Customer Select program, customer switching behavior, storage requirements, and specific costs and/or savings to Nicor associated with its Customer Select program. Such costs shall include, but are not limited to the Supplier Application Charge, Group Charge, Group Additions Charge, Account Charge and Bill Charge.

IT IS THEREFORE ORDERED, that 24 months after its tariff takes effect, Nicor shall file with the Commission a report outlining specific information about its Customer Select Program. This report shall be prepared and filed in the same manor as other required reports and shall be subject to the same Commission review process.